e-News for School Finance

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By Tony Juarez, EdD, CPA, CIA

By now, the Board of Trustees of each school district in the state has approved their respective school district's or charter school's 2019 Annual Financial Audit Report (AFR). However, I suspect there are some school districts or charter schools that did not file or publish the AFR within the statutory or district's timelines. School districts and charter schools are required to submit their AFR according to the Texas Education Code and Financial Accountability System Resource Guide. In this article, we explain the school district's and charter school's statutory requirements and possible consequences for noncompliance.

According to the *Texas Education Code (TEC), Section 44.008 "Annual Audit Report," the board of school trustees of each school district shall have its school district fiscal accounts audited annually at district expense by a certified or public accountant holding a permit from the Texas State Board of Public Accountancy. A copy of the annual audit report, approved by the board of trustees, shall be filed by the district with the agency not later than the 150th day after the end of the fiscal year for which the audit was made."* TEC §44.008 does not provide for an extension nor provides an extension when the date falls on a holiday or weekend.

The Financial Accountability System Resource Guide (FASRG), Update 16, Module 1, Section 1.1.4—Audit Requirements states: "An independent auditor must audit your district's fiscal accounts annually." The school district must file the auditor's report with the TEA electronically as part of its AFR. According to FASRG's §1.5.1.1, "the district's AFR is due to the TEA no later than the *150th* day after the end of the school district fiscal year that the report covers." If the district's fiscal year ends June 30, the AFR is due November 27. If the district's fiscal year ends August 31, the AFR is due January 28.

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Missed the AFR Filing Date

FASRG §1.5.1.5 requires the president of the Board of Trustees to submit the audited financial information to a newspaper circulated inside the boundaries of the school district for publication. This section further states, "The financial information must be published no later than 150 days after the close of the year."

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In general terms, school districts with a fiscal year ending June 30, 2019, were required to file with the Agency the AFR on or before November 27, 2019, and school districts with a fiscal year ending August 31, 2019, were required to submit the AFR on or before January 28, 2020. Additionally, districts had to publish no later than 150 days the audited financial information in a newspaper circulated inside the district's boundaries.

However, I suspect there are some school districts or charter schools that did not file or publish the AFR within the statutory or district's timelines. For these districts and charter schools, my questions are:

- Was the district or charter school-ready, but the independent auditor did not complete the audit within the timelines?
- Was the district or charter school not ready, and the independent auditor did not complete the audit within the timelines?
- Was the district or charter school not ready for the annual financial audit?
- Were there any unforeseen circumstances?

"Were there any unforeseen circumstances?"

What are the school districts' consequences of noncompliance with the AFR's filing and publishing requirements? TEC §44.008 does not explicitly cite penalties or sanctions for not submitting the AFR within the timelines. But, the FASRG does have requirements and explain possible consequences for noncompliance.

FASRG's § 1.5.1.6 Notification for Late Audit requires a district that cannot submit an adequately prepared AFR to the TEA within two weeks of the due date to notify TEA in writing. The written notice must:

- Explain the circumstances causing the noncompliance and
- State when the AFR will be submitted.

FASRG's Noncompliance §1.5.1.7 states, "TEA will notify the district's superintendent that the school district has not complied with the requirement. The TEA may also conduct a special accreditation investigation of the district's financial accounting practices and state and federal program requirements. Based on the results of the special investigation, the district's accreditation rating may be lowered."

The district's Financial Integrity Rating System of Texas (FIRST) score is not affected

- According to FIRST's Indicator #1, "Was the complete annual financial report (AFR) and data submitted to the TEA within 30 days of the November 27 or January 28 deadline depending on the school district's fiscal year-end date of June 30 or August 31, respectively?"
- A school district not submitting the AFR with the Agency within the TEC §44.008 timelines, but filing the AFR within 30 days of the November 27 or January 28 deadline will receive a FIRST passing score.
- However, a district meeting the TEC §44.008 deadline, but not meeting the FIRST timeline automatically earns a Substandard Achievement (F) regardless of points earned. (Continued)

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Missed the AFR Filing Date

What about the consequences for charter schools? In my view, charter schools could face stiff consequences. The Texas Administrative Code (TAC) §100.1022 require minimum financial performance and continuation of an open-enrollment charter is contingent on the charter holder satisfying generally accepted accounting standards of fiscal management. If a charter school files the annual audit report more than 180 days after the close of the fiscal year. The commissioner may non-renew a charter contract.

In summary, if the district or charter school did not file the annual financial report within TEA's or district's and charter school's timelines, this is the time to prepare for your 2020 financial audit. If the entity's fiscal year closes on June 30th, there are four months left in the fiscal year to prepare. An excellent resource is your external auditor. Especially, if your district or charter school retained its external auditor for three or more consecutive years. The auditor should be familiar with the entity's circumstances for not filing the annual report within the required timelines. If your district or charter school are not receiving assistance from your external auditor, TEA publishes a list of audit firms that performed audits of school district and charter schools.

Frost Bank

Bond Financing News

By Duncan Morrow, Kevin Escobar, Phil Martin

As the bond market marches forward in 2020, investment bankers expect to see record volume, which would exceed the previous record set in 2016 of $425 billion sold. Municipal (Muni) issuers, like cities and school districts, flooded the market to end 2019 as rates continued to stay low. The Federal Open Market Committee (FOMC) last voted to cut its target rate by 25 basis points (bps), down to a range of 1.50% to 1.75%, after their October 2019 meeting. Looking forward, Fed Funds futures traders currently do not foresee the likelihood of any additional rate cuts until the end of the year. This bodes well for school districts as interest rates continue to hover near their historically low levels across the curve.

The surge in issuance in the last half of 2019 was primarily due to the unexpected issuance of "taxable" Muni bonds. Markets hit a lull and "tax-exempt" issuance dried up in 2018 after the Tax Cuts and Jobs Act of 2017 went into effect. One of the major impacts to the municipal bond market was the elimination of the advance refunding for issuers. Previously, school districts could refinance their debt by utilizing a current refunding (refinancing bonds less than 90 days prior to their call date) or an advance refunding (refinancing bonds more than 90 days prior to their call date). Without the ability to refinance debt earlier on advance "tax-exempt" basis, the market saw issuance slow down in 2018. (Continued)

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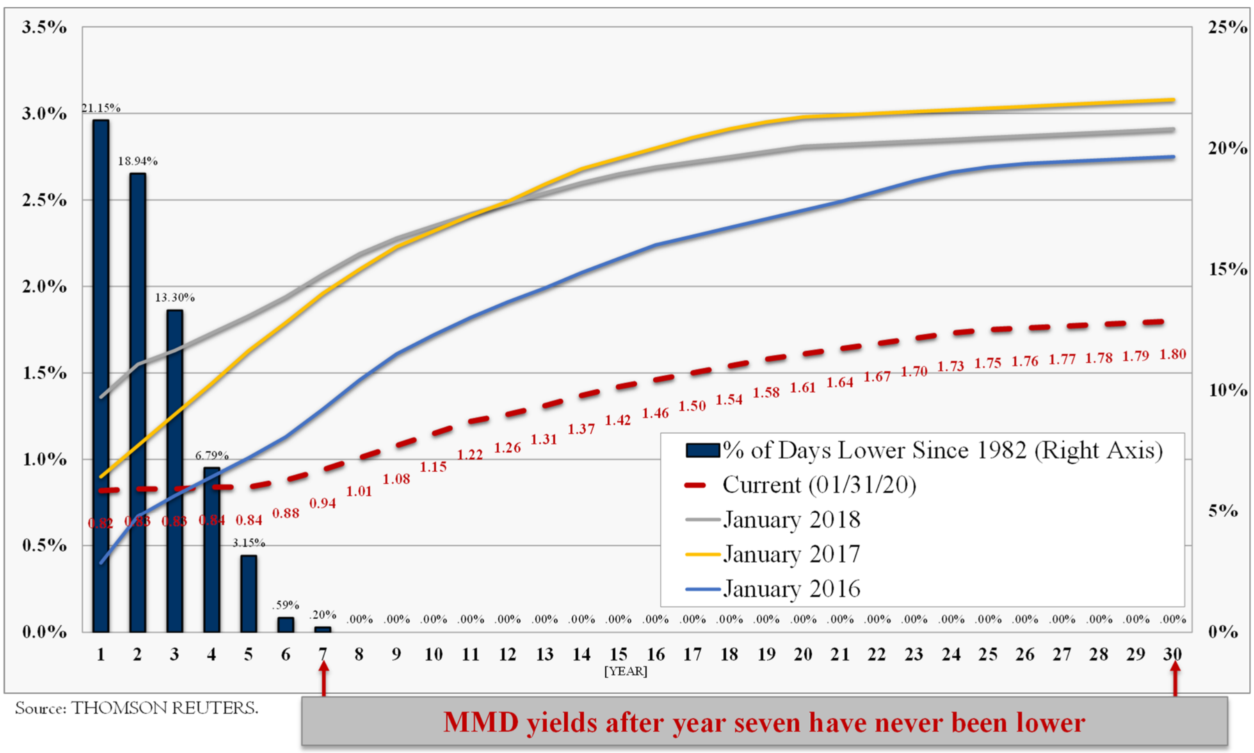
However, as bankers pressed on through 2019 and the FOMC continued to cut rates, the low interest rate environment persisted and brought with it the idea to advance refund debt on a "taxable" basis. We believe this refinancing technique will continue to be relevant in 2020 and will be an important debt management tool for school districts to consider.

MMD Yields at Historic Lows

The Municipal Market Data "MMD" 30-year yield curve is the most widely referenced yield curve in the municipal bond market. It reflects the standard for newly issued tax-exempt bonds in the municipal market and the basis to which municipal underwriters apply spreads in writing their scales. In short, it represents the floor for municipal bond rates and a daily pulse of how the market is doing.

Prior to year-end 2019, many market participants expected the municipal yield curve to sharpen (i.e. for rates to stay relatively flat upfront and increase incrementally through year 30). However, the first 30 days of the new decade proved otherwise with rates dropping by as much as 31 bps along the curve and by 27 bps on average. On January 30, 2020, more than 75% of the MMD curve (years 8 through 30) were at, or below, all-time lows – going back to the implementation of MMD in June 1981. Many municipal issuers that have recently priced bonds (and those about to sell) have reaped the benefit of these historic lows by locking in an extremely low cost of funds.



Source: THOMSON REUTERS.

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